



Improvements!

City Departments Implementing Audit Recommendations

Report #2000-1

City of Seattle – Office of City Auditor

February 22, 2000

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City Improving Controls Over Claims Warrants

Claims Warrant: A claims warrant is a check issued by the City to a vendor, employee, or other party.

State Auditor's Finding: In 1997 and 1998 the State Auditor's Office informed the City of its concern that "[l]arge numbers of claims warrants are being routed back to the paying departments rather than being sent directly to vendors." The State Auditor further stated that: "In all but a few of the cases we reviewed, the stated purpose was to enable the departments to attach remittance advices. *We found no irregularities.* However, we recommend that someone independent of the paying departments handle the attachment of remittance advices. We also recommend that the routing of warrants back to the respective departments be allowed only when a unique situation makes it necessary." (Emphasis ours.)

FOLLOW-UP ON THE STATE AUDITOR'S FINDING

Our goal was to ensure that all City departments implemented sufficient internal controls¹ to address the concerns raised by the State Auditor. We began by discussing the State Auditor's findings at the July 1999 Accounts Payable/Purchase Order (AP/PO) User Group meeting. Subsequently, we scheduled individual meetings with each department's relevant AP personnel to discuss their current processes concerning warrants. We also met with two non-AP groups responsible for processing refund checks, the Fire Marshall's Office and Seattle City Light's Customer Service.

We reviewed the number of warrants issued between October 8, 1999 and November 12, 1999. For these 25 business days we found:

- A total of 15,789 warrants worth nearly \$80 million were issued;
- 2,272 of these, worth over \$21.5 million, were returned to departments;
- warrants returned to departments represented 14% of the total number, but 27% of the total dollars; and
- on average, 91 warrants valued at \$9,500 each were returned to departments each day.

What's wrong with sending warrants back to the department?

Sound internal controls are designed to provide reasonable assurance of preventing and detecting irregularities. Without sound internal controls, the City cannot know or determine if irregularities occur. One of the most important internal controls to implement is segregation of duties. What the State Auditor and our own work discovered is that warrants were not only being returned to the paying department, but they were being returned to the employee who initiated the warrant in the City's accounting system – a violation of the principle of segregation of duties.

This practice exposes the City to significant risks that are hard to detect, such as payments made to a false vendor, vendor payments that are stolen and negotiated, and duplicate payments that are processed, made and negotiated.

Failure to segregate duties also poses a significant risk to the employee. Should irregularities be discovered and there is inadequate segregation of duties, an innocent employee could be under suspicion or even wrongly accused.

Our findings

With the exception of the Office of Economic Development and Police Pension, departments were routing warrants back to the AP employee who had initiated them in SFMS/Summit.

In most instances, vendor warrants were returned to AP so that attachments could be included and employee warrants for reimbursement (e.g., travel expenses) were returned to be hand-delivered to the employee.

¹ Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurances regarding the achievement of objectives in the following categories: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting; and 3) compliance with applicable laws and regulations. *Committee of Sponsoring Organizations of the Treadway Commission (COSO).*

While many departments have implemented new procedures, others are in the “experimenting” stage. We expect that all departments, will have implemented new procedures during the first quarter of 2000.

Departmental action plans

Our intent was not to “impose” a particular process, but to work with departments to find a process that worked for them and did not add significantly to anyone’s workload. The resulting action plans are quite varied, mainly influenced by the personnel available to assist the AP workgroup. In many instances, finding another employee, outside the AP workgroup, has been difficult.

One of the biggest concerns of the AP workgroups was making sure that the returned warrants are mailed with the appropriate attachments. Most departments decided to have the AP personnel prepare the envelopes, with the attachments, and hand them to someone outside the AP group who will be responsible for mailing the warrants. This will ensure that warrants are not returned to either the individual who initiated the warrant or the individuals who approve and post (in Summit) the warrants.

The Fire Department, which provides AP support, and the Fire Marshall’s Office, which issues refund checks to businesses, worked to make their two processes operate together more efficiently. They developed a process by which all of the refund checks initiated by the Fire Marshall’s Office would be mailed by Treasury rather than have them returned to the Fire Marshall. Both groups should be commended for coming together and developing a cost-efficient solution.

We also found that most departments expressed an interest in having Treasury send out ALL warrants if a process could be developed that would ensure that the correct attachments are sent with the appropriate warrants. Treasury personnel indicated that this might be possible, but voiced concern about the possible impact on Treasury’s workload.

Long-Term Recommendations:

Overall, we believe that too many warrants are being returned to departments. We recommend that the Treasury Division, working with the Accounting Division and the AP/PO Users Group, develop policies and procedures to curb the number of warrants being returned to departments. We suggest the group consider procedures to have departments send attachments to Treasury for Treasury to attach to the appropriate warrant and then mail. Warrants should be routed back to departments only if a unique situation makes it necessary. For a warrant issued to an employee, departments may want to consider mailing the warrant to the employee’s home address rather than returning it to the department.

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